



GOVERNOR WOLF

SCHOOLS THAT TEACH • JOBS THAT PAY • GOVERNMENT THAT WORKS

2018-19 MID-YEAR BUDGET BRIEFING

Tom Wolf
Governor

Randy Albright
Secretary of the Budget

December 11, 2018





GOVERNOR WOLF

SCHOOLS THAT TEACH • JOBS THAT PAY • GOVERNMENT THAT WORKS

2018-19 ENACTED FINANCIAL STATEMENT

	2016-17	2017-18	2018-19
	<u>Actual</u>	<u>Revised</u>	<u>Enacted</u>
Beginning Balance	\$ 1,991	(1,539,333)	22,362
Adjustments to Beginning Balance	3,150	15,000	(65,100)
Official Estimate	31,669,000	34,566,948	33,974,800
Refunds	(1,350,000)	(1,339,000)	(1,359,000)
Total Revenue	30,324,141	31,703,615	32,573,062
Prior-Year Lapses	78,313	289,168	150,100
Funds Available	30,402,454	31,992,783	32,723,162
Enacted Expenditures	31,941,787	32,011,101	32,714,991
Supplemental Appropriations	-	(15,042)	-
Current-Year Lapses	-	(48,000)	-
Total Expenditures	31,941,787	31,948,059	32,714,991
Preliminary Balance	(1,539,333)	44,724	8,171
Transfer to the Rainy Day Fund	-	(22,362)	(4,086)
Ending Balance	\$ (1,539,333)	22,362	4,085
Cumulative Rainy Day Fund Transfer		(22,362)	(26,448)

CURRENT-YEAR REVENUE COLLECTIONS

- Tax revenue growth in the prior fiscal year was 4.1%, or \$1.25B
- Fiscal year-to-date tax collections are 8.2%, or \$913M, above prior year
- Core taxes showing strong growth
 - Corporate Net Income Tax 32.8% higher
 - Sales Tax 8.9% higher
 - Closing tax loopholes for digital downloads and marketplace sellers has maximized collections
 - Personal Income Tax Withholding 3.5% higher

2018-19 GENERAL FUND TAX REVENUE COLLECTIONS THROUGH NOVEMBER

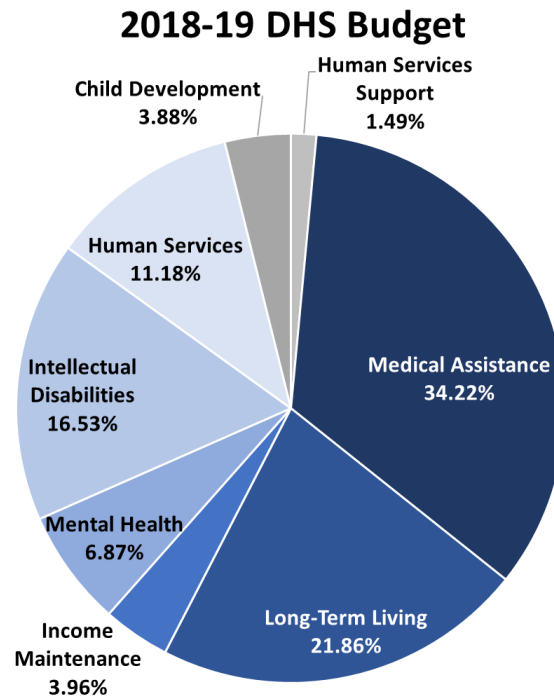
	<u>Estimated</u>	<u>Actual</u>	<u>\$ Difference</u>	<u>% Difference</u>
Corporation Taxes	\$ 872.4	\$ 1,079.5	\$ 207.1	23.7%
Consumption Taxes	5,265.9	5,396.6	130.7	2.5%
Sales & Use - Non-Motor	3,950.8	4,052.8	102.0	2.6%
All Other	1,315.1	1,343.7	28.6	2.2%
Other Taxes	5,699.9	5,627.0	(72.9)	-1.3%
PIT Withholding	4,221.4	4,170.0	(51.4)	-1.2%
PIT Non-Withholding	761.5	741.9	(19.6)	-2.6%
All Other	717.0	715.1	(1.9)	-0.3%
Total Tax Revenue:	\$ 11,838.2	\$ 12,103.1	\$ 264.9	2.2%

Note: Dollar amounts in millions.



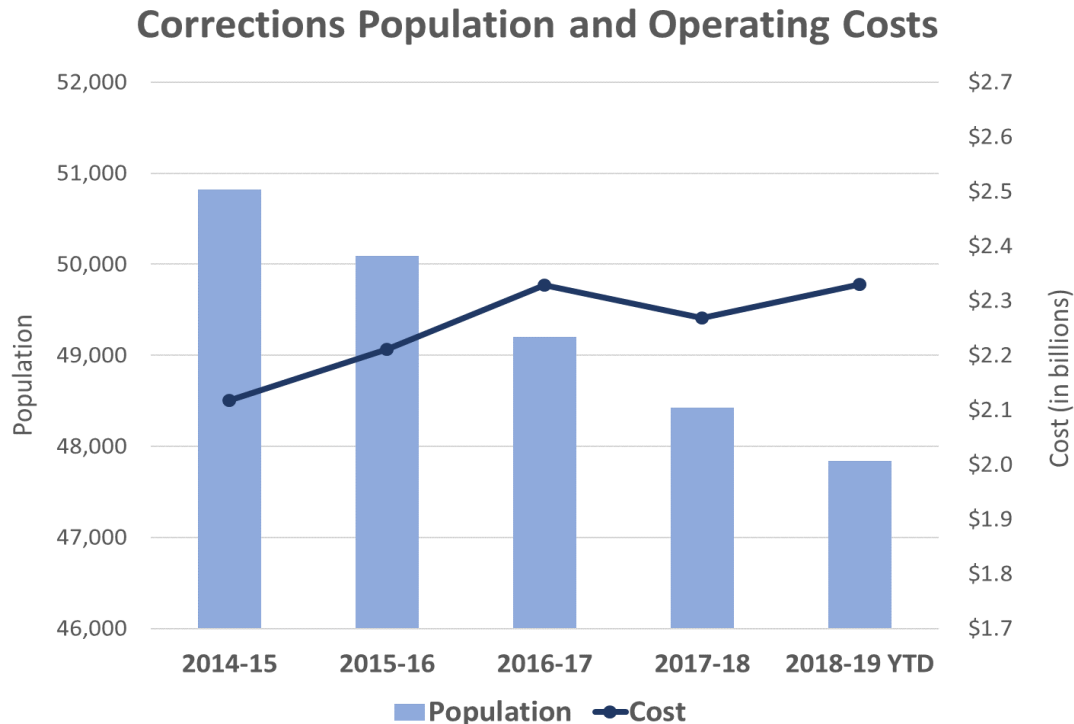
POTENTIAL 2018-19 SUPPLEMENTAL NEEDS

- Department of Human Services
 - Long-term living costs increasing
 - Managed Care oversight helps to control costs
 - CHC implemented in SW PA in January 2018 with expansion into SE PA in January 2019



POTENTIAL 2018-19 SUPPLEMENTAL NEEDS

- Department of Corrections
 - Overtime costs increased significantly in the current year due to institution lockdowns and the transition of inmates to SCI Phoenix
 - Population has declined by more than 3,400 since January 2015

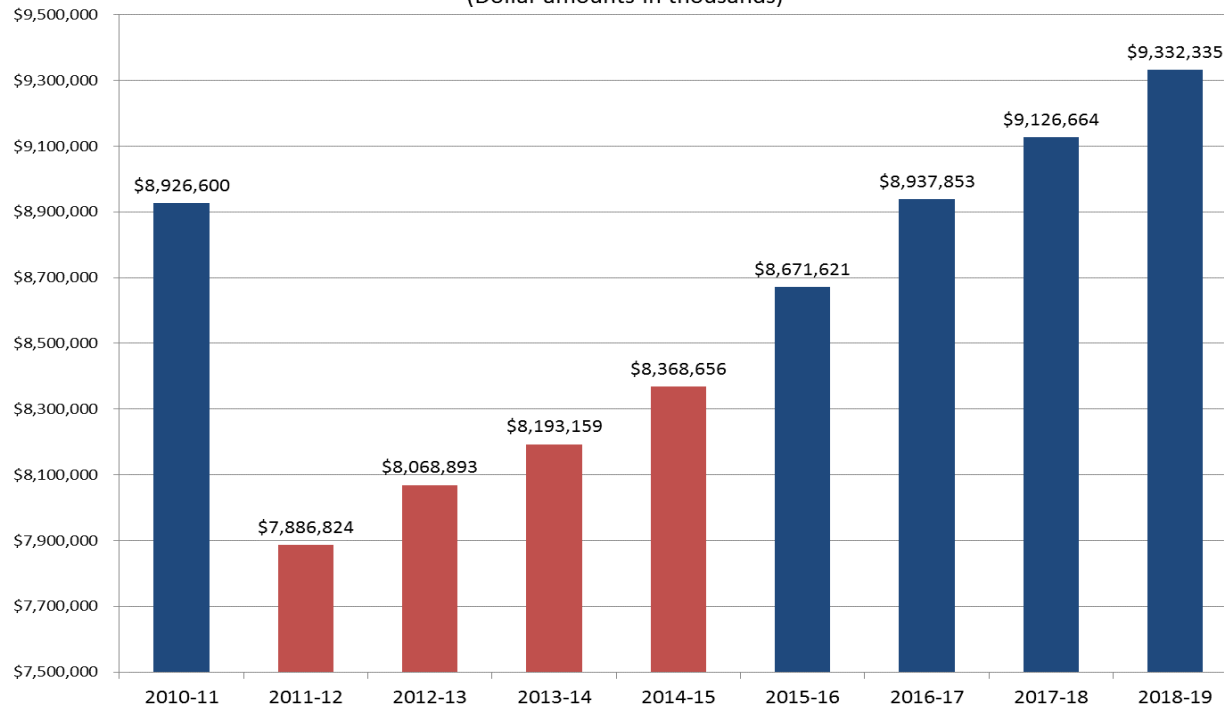




HISTORIC INVESTMENTS IN EDUCATION

- Nearly \$1.1 billion increase in education funding over four years:
 - \$633M in basic education funding
 - \$115M for early childhood education
 - \$90M in special education funding
 - \$48M for early intervention
 - \$129M for PASSHE and state-relateds
 - \$23.4M for Community Colleges
 - \$30M for CTE and PAsmart
 - Enacted fair funding formula

Pre-K to 12 Education Funding
(Dollar amounts in thousands)

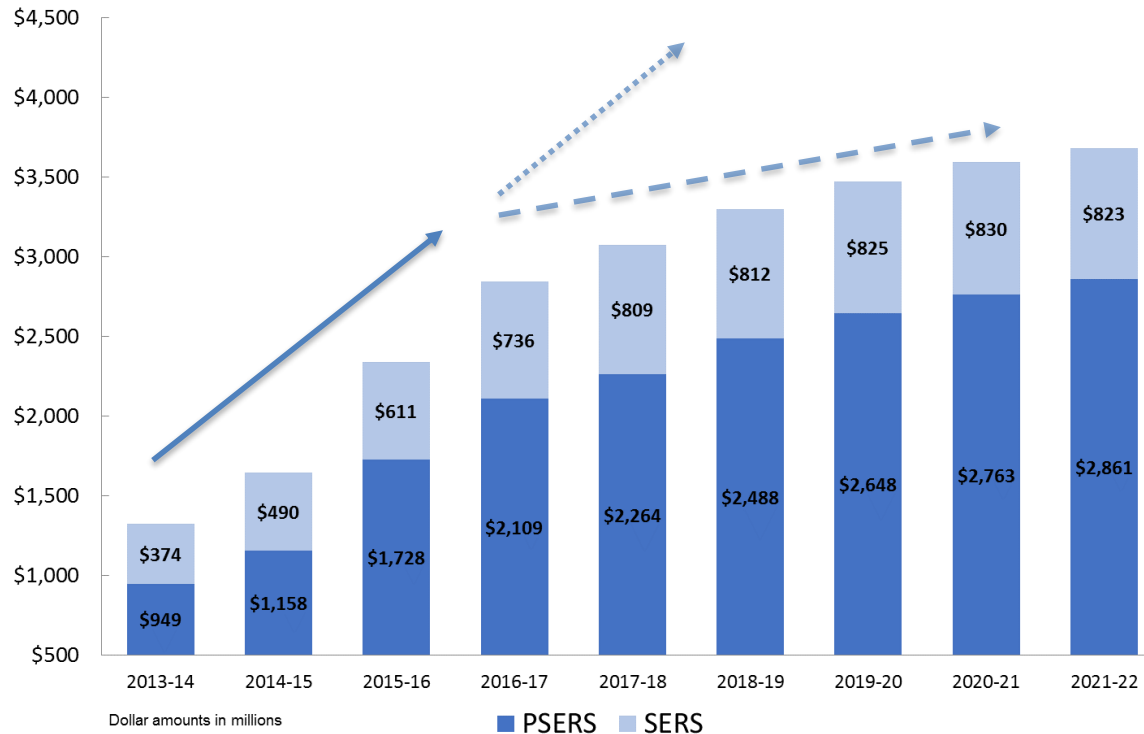


Note: Excludes Authority Rentals and Sinking Fund Requirements.

PENSION CONTRIBUTIONS

- Fully funding actuarially required contributions
- New employee benefit plans beginning in 2019 reduce employer risk
- Act 5 Commission scheduled to outline steps to cut fees

SERS and PSERS Contributions - General Fund Share



GOVERNMENT THAT WORKS

- **Combatting the heroin and opioid abuse epidemic:**
 - Increased access to Naloxone, expanded specialty drug courts, continued funding for 45 centers of excellence
- **Providing services to 6,800 additional children on the child care waiting list**
- **7,900 additional individuals with ID/autism served in the community**
- **Medicaid Expansion:**
 - Reduced uninsured from 14% to 5.5%
 - Decreased annual costs by \$700M



GOVERNOR WOLF

SCHOOLS THAT TEACH • JOBS THAT PAY • GOVERNMENT THAT WORKS

GAMING EXPANSION

(dollar amounts in millions)

General and Property Tax Relief Funds

Source	2017-18	2018-19
iGaming	\$ -	\$ 117.9
Loan Repayments	\$ 16.6	\$ 15.1
Category 4/Satellite Slots	\$ 127.0	\$ -
Category 3 Additional Slots/Table Games	\$ -	\$ 4.2
Airport Gaming (Tablets)	\$ -	\$ -
Patron of Amenities	\$ 1.0	\$ -
Fantasy Sports	\$ 0.2	\$ 6.7
VGTs	\$ 0.5	\$ 1.2
Sports Wagering	\$ -	\$ 81.2
GEDTF	\$ 12.0	\$ 12.0
Change of Ownership Fees	\$ -	\$ 8.9
TOTAL	\$ 157.3	\$ 247.2

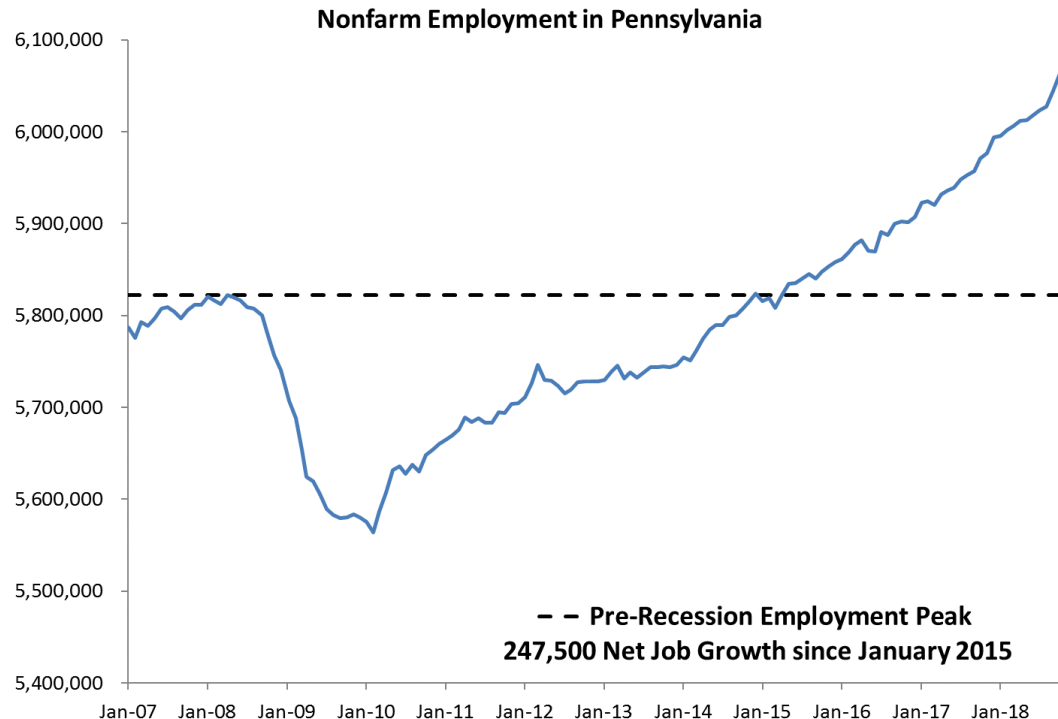
Total Impact

General Fund Impact	\$ 157.3	\$ 229.8
Lottery Fund Impact	\$ 1.9	\$ 70.8
Property Tax Relief Fund Impact	\$ -	\$ 17.4
TOTAL IMPACT	\$ 159.2	\$ 318.0



INVESTMENTS TO CREATE JOBS

- Eliminate Capital Stock and Franchise Tax
- Manufacturing PA
- Permitting Reform
- One-Stop Shop for Business
- Middle Class Task Force
- PAsmart Initiative



PENNSYLVANIA ECONOMIC FORECAST

Economic Variable	2018	2019	2020
GDP	4.7%	4.7%	4.0%
Consumer Price Index	2.2%	2.5%	1.8%
Personal Income	3.8%	4.0%	4.2%
Unemployment Rate	4.4%	3.7%	3.6%

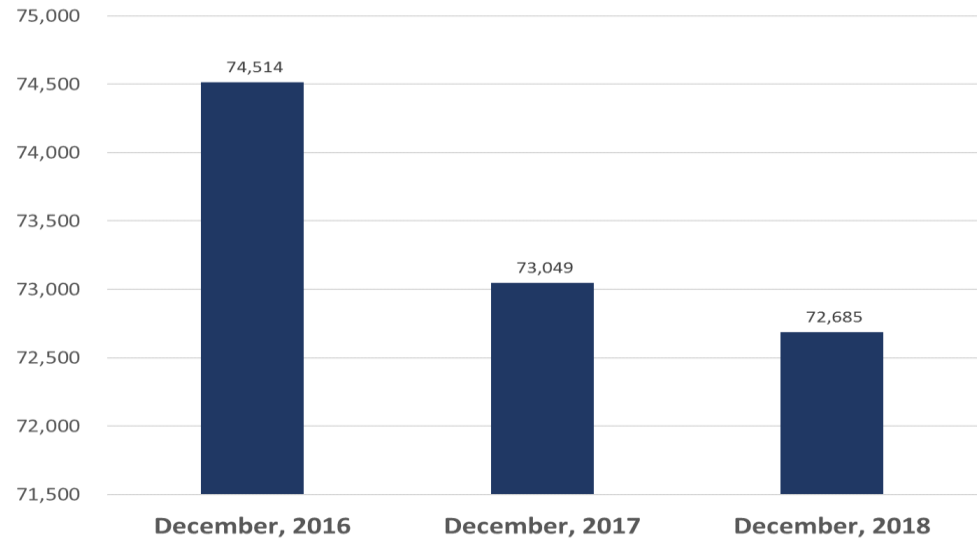
Note: Represents the annual percentage growth rates, except for the unemployment rate.

Source: IHS Markit, November 2018

PROTECTING TAXPAYERS BY CREATING EFFICIENCIES

- Complement reductions of more than 1,800 filled positions, reducing total complement to less than 72,700 positions

Filled Complement Levels



- Restructured HR & IT service delivery and consolidated administrative functions among health and human service as well as criminal justice agencies
- Civil Service Reform takes effect this month



2019-20 SPENDING CONCERNS

- Higher FMAP rates increasing human services costs
- Current labor contracts expire next year
- Pending litigation creates uncertainty, including Turnpike payments for transit programs
- PHEAA reserves diminishing, shifting scholarship costs to General Fund
- Motor License Fund cap on State Police spending

SECOND-TERM BUDGET PRIORITIES

- Education progress through sustained investment
- Implement Ready to Start Task Force recommendations to address health, human services, and education policy for infants and toddlers
- Create a fairer, more competitive business tax climate
- Reduce or restrain state spending to balance budgets and build Rainy Day Fund reserves